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C O N F I D E N T I A L SECTION 01 OF 02 DAMASCUS 000777

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NEA/ELA; NSC FOR MARCHESE

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TAGS: [ECON](#) [EFIN](#) [PREL](#) [PGOV](#) [SY](#)

SUBJECT: DESPITE ASAD'S DENIAL, RUMORS OF SUBSIDIES BEING
LIFTED CONTINUE

REF: A. DAMASCUS 755

[1](#)B. DAMASCUS 501

Classified By: CDA Michael H. Corbin for reasons 1.4 b/d

[1](#)1. (C) SUMMARY: President Asad rejected public rumors of the lifting of subsidies in his July 17 inauguration address (ref A). In spite of this populist message, SARG officials continue to publicly discuss the burden of subsidies and their future plans to restructure the subsidy system. The SARG efforts so far have focused on restricting subsidy benefits for foreigners. This includes a June 2007 decision that requires foreign entities in Syria - including the U.S. Mission - to purchase diesel at the international price rate of USD 54 cents per liter instead of the previously subsidized price of USD 14 cents per liter. Nevertheless, members of the business community and regime insiders argue that the SARG is working on a broader plan to restrict subsidies and that the private sector will be the next target. Contacts also argue that a widespread rumor of an upcoming SARG-mandated salary increase is an effort to build public goodwill prior to future subsidy reductions. END SUMMARY.

[1](#)2. (C) The Syrian public generally responded positively to President Asad's July 17 inauguration speech that rejected public rumors of the lifting of subsidies - especially as local rumors circulating prior to the speech speculated that Asad might speak of partially lifting subsidies. Over the past week, SARG officials have also denied that there will be a lifting of subsidies, however, they continue to publicly acknowledge the burden of subsidies to the Syrian economy and speak of vague future plans for subsidy restructuring. The Syrian Deputy Prime Minister for Economic Affairs Abdullah al-Dardari, for example, recently admitted that the cost of subsidies will increase to USD 7 billion in 2008.

[1](#)3. (C) SARG officials are also asserting that envisioned changes to the subsidy system are designed to limit benefits for foreigners. (Note: The SARG reports that 30 percent of imported oil products go to non-Syrians here, although much of this is actually due to cross-border smuggling. End Note.). Business contacts argue that the SARG efforts to cut-off foreigners resonates well with Syrians who are frustrated over public benefits going to Iraqi refugees which the SARG claims currently number 1.4 million. They further argue that the SARG is planning to develop a coupon system for items such as diesel that would in theory limit subsidy benefits solely to Syrians. The SARG has already taken some action to exclude foreigners. In June 2007 the Syrian Company for Storing and Distribution of Petroleum issued a decision approved by the Syrian Prime Minister that all

embassies and their premises, private universities and schools, and all foreign organizations and companies in Syria must purchase diesel at international prices. As a result, Post is now paying for diesel at a rate of USD 54 cents per liter - as opposed to the previously subsidized price of USD 14 cents per liter.

¶4. (C) Nevertheless, business contacts also believe that the emphasis on excluding foreigners from subsidy benefits is only a first step, and that the SARG will ultimately reduce subsidies more broadly. They note that the Ministry of Electricity has already announced pricing changes that will reduce electricity subsidies for residential areas - to the dismay of the Syrian public. There are also widespread rumors prompting concern among the business community that the SARG will shortly move to restrict subsidies for the private sector. At the same time, contacts point to Asad's July 17 inauguration speech and subsequent comments by Prime Minister Otri that allude to a SARG-mandated salary increase in the near-term. Business contacts argue that this is a SARG attempt to build public goodwill prior to further subsidy restrictions.

¶5. (C) COMMENT: The continuing discussion of subsidies in the press and rumors circulating in the business community likely reflect a common SARG tactic of sending out "trial balloons" to gauge public reaction and condition the public into accepting potentially painful policy changes. Real subsidy reform, however, is likely to be halting and dependent on the regime's assessment of its security position which always takes precedence over implementation of reforms necessary for economic growth. Still, the budgetary strain of continuing subsidies in their current form is real and growing, compelling further SARG action over the short and

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medium term (ref B).
CORBIN